

1905

Municipal accounting reform as illustrated in the city of Minneapolis, Minn.

H. W. Wilmot

Follow this and additional works at: https://egrove.olemiss.edu/acct_inst

Recommended Citation

Wilmot, H. W., "Municipal accounting reform as illustrated in the city of Minneapolis, Minn." (1905). *Publications of Accounting Associations, Societies, and Institutes*. 86.
https://egrove.olemiss.edu/acct_inst/86

This Article is brought to you for free and open access by the Accounting Archive at eGrove. It has been accepted for inclusion in Publications of Accounting Associations, Societies, and Institutes by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

MUNICIPAL ACCOUNTING REFORM

AS ILLUSTRATED

IN THE CITY OF MINNEAPOLIS, MINN.

A PAPER READ BEFORE THE CONVENTION OF THE AMERICAN
SOCIETY OF MUNICIPAL IMPROVEMENTS AT
MONTREAL, SEPTEMBER 5, 1905.

By

H. W. WILMOT, C. P. A.

of the firms of

PRICE, WATERHOUSE & COMPANY,
and

JONES, CAESAR, DICKINSON, WILMOT & COMPANY.

New York. Chicago. St. Louis. Pittsburgh. San Francisco.
London (England). Melbourne (Australia).

MUNICIPAL ACCOUNTING REFORM

AS ILLUSTRATED IN THE CITY OF MINNEAPOLIS, MINN.

A Paper read before the Convention of the American Society of Municipal
Improvements at Montreal, September 5, 1905,

BY

H. W. WILMOT, C. P. A.

It is generally admitted by Students of Municipal Finance that the Accounting Methods of most Cities of the United States are deplorably behind the times, and that similar methods could not be tolerated for a day in any successful commercial corporation. These methods may possibly have met the local requirements when the Cities were smaller, but as Municipal affairs have become more complex the multiplication of matters to be recorded has rendered these antiquated Accounting Systems entirely inadequate.

Not in one case in a hundred is it possible to present promptly those periodical Statements during the fiscal year which are as necessary for the guidance of City Officials as for the Directors who manage the affairs of large industrial corporations, and the Annual Reports of Comptrollers and Treasurers do not afford intelligent citizens the information they require in order to form an opinion as to whether the administration has been successful or unsuccessful.

ments, the cost of which would be recovered by special assessments spread over a term of five years.

The City Charter requires that as installments of assessments are collected the money shall be used for further Improvements of the same nature, which will in turn be assessed. As the installments are collected they are to be again expended, and so on—hence the name “Revolving Fund.”

For the Fund to be kept intact there should always exist Assets to offset the Liabilities. These Assets should be made up of :

- (1) Installments of Special Assessments not yet due.
- (2) Special Assessments due and uncollected.
- (3) The cost of Uncompleted Improvements which on completion will be assessed against the owners of abutting property.
- (4) Supplies on hand purchased through the Fund.
- (5) Cash on hand applicable to the Fund.

It will readily be seen from the number of elements which constitute the Fund that no proper Accounting can be had if only Cash Receipts and Disbursements be dealt with, and no account taken of the Assets which will be ultimately converted into cash applying to the Fund.

It was impossible, moreover, to agree the special assessments levied with the actual cost of the Improvements. No complete Cost System was kept in the Engineer's Department nor, in fact, was there any connection between the Comptroller's and Engineer's books.

There was no means of ascertaining that the actual cost of the Improvements was assessed, nor whether all the assessments were collected and the proceeds turned over to the Treasury.

The accounting of the City was carried on for many years on these unsound principles, until at last the City Officials

were confronted with the fact that there was not sufficient cash left in the Permanent Improvement Revolving Fund to provide for necessary current Improvements, and it is impossible at this date, without a lengthy investigation into the transactions of past years, to say how the deficit arose.

(d) A number of Appropriations were over-expended, but the fact was not disclosed by the old system of accounting. For example—Liabilities for Street Lighting were incurred during the year 1904, amounting to \$226,940.10 as compared with an appropriation for this purpose out of the Current Expense Fund of \$200,027.00, thus leaving liabilities of the 1904 administration to the extent of \$26,913.10 to be met by the next administration.

The deduction should not be drawn from the above illustrations that the financial arrangements of Minneapolis have been more than ordinarily lax. Examination of several other Cities has shown that even greater financial confusion frequently exists, and it is believed that similar experiences might be expected in a majority of Cities of similar size.

To relate the difficulties which had to be overcome to bring order out of this chaos would be out of place, but from the above remarks it will be seen that one of the main objects of the reform was to abolish the old Cash System and replace it by a System which would continuously record all Income arising from Tax Levies, Water Rents, etc., and introduce all obligations incurred on account of purchases and expenses as they accrue to be carried as Assets and Liabilities respectively until collected or paid, or otherwise properly disposed of.

CHECK ON	In a City of the size of Minneapolis, one of the
REVENUE AND	essentials of a System which is to afford a
EXPENSE.	check on the collection of Revenues and on the
	incurring of Expenses is the proper recording
	of every bill immediately a demand in favor of

the City comes into existence, and of every requisition for expenditure as soon as it is authorized.

If this recording be systematically attended to by a competent Comptroller the information can be used as a basis of Account Books showing the City's Resources and Liabilities and should afford the means of preventing waste through carelessness or graft.

These books will record all the Revenues which pertain to the year, and the actual expenses incurred during the year for current administrative purpose, irrespective of whether such Revenues and Expenses have been actually collected or paid. Thus, the Taxpayer of one year will not be made to pay the obligations which ought to have been met out of the Income of the previous years, nor will it be possible by the holding back of claims over the close of the fiscal year to throw the necessity for an increase in Taxes on the next administration. At least, if these conditions do arise they will be disclosed by the accounts and should be reported by the Comptroller to the Taxpayers in his published Annual Report.

Much discussion has taken place as to the scope
CENTRALIZATION and power of the Comptroller ; whatever doubt
IN OFFICE OF there may be as to the advisability of giving
COMPTROLLER. him power to interfere in questions of policy or
administration there can be no doubt as to the
wisdom of concentrating in his hands the Departments of Finance
and Accounts, in order that the Accounts and Reports of all
sections of the City Government shall be in accord.

The General Accounting System in the Comptroller's office should embrace the financial records of each of the Departments which incur expense or to which Income accrues and which keep Books of Accounts. These in turn should fit in with those of the Comptroller. This co-ordination of Departmental Records with the General System is particularly needed in the case of the Department of Public Works when a City undertakes its own

construction, otherwise, as has already been pointed out, there is risk of confusion between the Special Assessments and the Cost which they are supposed to cover.

Such an agreement can readily be arrived at if the Comptroller adopts a System of governing accounts with the various Departments, charging the several Departments in total with the expenditures incurred by them and leaving the detailed analysis or classification of these expenditures to be kept on the Departmental Books, subject to his audit.

The process of introducing methods centralizing authority necessarily involves a vast amount of labor under conditions by no means pleasant. The heads of the Departments usually appreciate the necessity for Reform in all other Departments except their own, and their jealousy of their own dignity and resentment against any suggestion of supervision, even in Accounting matters, render the work of weaving together the old disjointed Systems of the various Departments a difficult matter.

It is fair to say that in Minneapolis, after the Reforms had been thoroughly explained and understood, they were cheerfully adopted. The changes were made without confusion in the conduct of the City's affairs and the detail operations of the new methods have since been carried out without friction.

	The question will naturally be asked whether
ECONOMIES	economies are likely to have been effected by
TO BE	the institution of the new System.
EFFECTED.	

So far as the actual expense for clerical help is concerned there may be no saving. Considerable economy can, however, be effected through the placing of the means of supervising the expenditures of the various Departments and the collection of Revenue in the hands of a capable and honorable Comptroller, who will be in a position to detect fraud and to supervise the collection of Revenues which would be otherwise lost to the City.

In the case of Minneapolis it may be safely stated that, owing to the closer supervision which the new System renders possible, and the consequent reduction in losses through Uncollected Revenues and the elimination of erroneous duplication of the payment of claims, the Revenues of future years will eventually be found to have increased considerably over those of previous years.

If the System be properly carried out it will be impossible for any shortages similar to that in the Revolving Fund to occur again, and the close supervision will have a healthy effect on all those responsible for collecting and disbursing the Revenues of the City.

<p>GENERAL BALANCE SHEET DECEMBER 31, 1904.</p>	<p>In the light of the elementary principles of Accountancy dealt with above, viz.—the recording of Revenue and Expenses and the centralizing of control in the office of the Comptroller—the main features of the Minneapolis Balance Sheet, December 31, 1904, may now be pointed out.</p>
---	--

It will be noted that this statement which exhibits the financial position of the City as a whole is divided into two sections. The upper section contains only the Capital Assets and Liabilities, *i. e.*—the Fixed Properties, the Current Assets to be ultimately converted into Fixed Properties, the Sinking Fund Assets, the Bonds which will ultimately be liquidated through the Sinking Fund, and the Certificates of Indebtedness and Accounts Payable arising out of the acquisition of Fixed Properties. The difference between the Capital Assets and Capital Liabilities is the Capital Surplus and represents that portion of the value of the Fixed Properties which has been acquired by the City out of taxation.

The lower section of the Balance Sheet includes only the Current Assets and Liabilities, *i. e.*, those applicable to the Expenses of Administration and Maintenance and not to the

acquisition or improvement of Fixed Properties. The difference between these Assets and Liabilities, which is shown as the Revenue Surplus, represents the unexpended portion of the Revenue of the City and is represented mainly by Uncollected Taxes.

A common defect in the Reports of even those Cities which publish ample data is that the information is so scattered and badly referenced that it is almost impossible for a layman to put together a comprehensive Statement. It should be the aim of a City Comptroller to present a set of Accounts which can be readily understood by the average business man.

This has been accomplished in Minneapolis by the presentation of a General Balance Sheet in the ordinary commercial form—supported by a Columnar Statement showing a condensed summary of the Assets and Liabilities of each distinct legal Fund. The references on the face of the General Balance Sheet indicate that all the items grouped under the different heads are given in detail in subsequent tables.

	In a City Balance Sheet it is desirable, if
CLASSIFICATION	possible, to state the cost of all the serviceable
OF CAPITAL	property (that is, the property which is fulfill-
ASSETS.	ing the purpose for which it was intended),
	classified under its main headings, with detail
	exhibits showing the cost, the present reproductive values and the
	depreciated values.

In actual practice some difficulty may be experienced in obtaining cost values of the Permanent Assets, and in many cases it may be necessary to take appraised values as a starting point. Such was the case in Minneapolis. The information as to the cost of Fixed Properties could not be obtained owing to the crude Methods of Accounting heretofore existing, while the present reproductive and depreciated values could not be given owing to the absence of a reliable appraisal, that made by the special Committee not being sufficiently complete for the purpose.

It must be borne in mind that the Balance Sheet of a City cannot be read in the same light as that of an ordinary Trading Corporation. The main object of the Balance Sheet is not to show the possibilities of Realization, but rather to afford information on administrative questions. The introduction, therefore, of the Capital Assets and the Bonded Debt of a City does not imply the possibility of the realization of City Properties with a view to liquidating the debt in the commercial sense; neither can the Current Assets be assumed to offset in total the Current Liabilities in total, inasmuch as the distinction of Funds must be maintained.

It is not to be assumed, however, that the administrative purpose is the sole determinant in fixing the form of the Balance Sheet.

One of the objects of the Balance Sheet should be to clearly show Bondholders and Tax Payers what the Assets of the City are.

The Capital Assets have been classified therefore in the Minneapolis Balance Sheet so as to show :

(a) Property which could be sold, if desired, without interfering with the facilities already enjoyed, such as the Water Works.

(b) Property which might be sold without hampering the City Administration, but the disposition of which would involve a loss of convenience, such as Parks, Public Buildings, etc.

(c) Property which it would be impossible for the City to sell under any circumstances, such as Bridges, Sewers, etc.

This classification has in the case of several Cities found great favor with Bankers in considering the placing of Bonds.

If it be felt that the distinction between the second and third class set out above is somewhat fanciful the following alternative

classification might be suggested: (a) Public Industries, (b) Schools, Parks, etc., (c) General City Property.

The division of the Bonded Indebtedness into classes to correspond with the Fixed Assets is desirable where possible, but inasmuch as the records of Minneapolis do not show out of which Bond issues the various properties were acquired, and also as the value of the Fixed Properties are based on a valuation and not on actual expenditures, this division was found impossible in the case of Minneapolis.

The Liability for Interest accrued but not due on Bonds has been omitted from the Balance Sheet for the reason that the Tax Levy covers only the Interest falling due within the year, and it was felt that the Assets and Liabilities should bear some relation to the revenue to be received for the acquisition or discharge thereof. Had the Liability been brought into account it would have been proper to have anticipated an equal amount of the Income of 1905 which would have been carried as a Deferred Asset in the Balance Sheet.

 The General Revenue and Expense Account
GENERAL appearing in the Minneapolis Report sets out
REVENUE the Revenues and Expenses classified according
AND EXPENSE to the various functions of City Administration
ACCOUNT. in accordance with the plan adopted by the
 Census Bureau. Elsewhere in the Report the
Revenue is distributed over the numerous Funds created by the
extremely complicated City Charter.

No comment is necessary on the various headings of the Revenue and Expense Account, but it may be pointed out that by means of sub-schedules the various classes of expenditure as given in such an account may be detailed so as to show, if desired, the name of the party to whom the smallest item was paid, so as to satisfy those Taxpayers whose desire is to know "who had the money."

WATER WORKS The Revenue Account of the Water Works,
REVENUE which is the only Revenue yielding property of
ACCOUNT. the City, shows an Operating Profit for the
 year of \$98,108.48. This Operating Profit,
 however, is arrived at without making any
charge for Interest on Capital invested or for Depreciation of Plant,
and before taking credit for water supplied to the various City
Departments.

It would be difficult, if not impossible, under the law of Minneapolis to incorporate as a part of the General System of Accounting a Revenue and Expense Account for the Water Works Department in the form which would be expected from an independent concern, or to present a Balance Sheet exhibiting the Surplus which would have been accumulated had the law permitted.

The City Charter specifies exactly what should go into the Water Works Fund and what should be paid therefrom. Nothing is mentioned regarding Interest on Bonds nor repayment of Capital, and therefore it would be illegal to reserve anything from the Water Works income for this purpose.

The provisions of the Charter need not, of course, prevent a memorandum account being prepared to show the operations of the Water Department on the same basis as if it were operated by a Company, but unfortunately no information was available as to the quantity of water used by the Fire and Sprinkling Departments, and this fact precluded the possibility of preparing such an account.

CORRECT In Cities possessing complicated Charters which
ACCOUNTS create numerous legal Funds for various pur-
SHOULD LEAD poses, it is a difficult matter to make the System
TO REFORM IN of Accounting conform to the classification of
ADMINISTRATION. the Uniform System of Reports adopted by
 the Census Bureau, on account of the fact that
 this classification frequently conflicts with the
local law.

The classification of the Census Bureau, however, has been devised after much thought by some of the leading Economists of the country, and the illustration afforded in the Minneapolis Account of conflicting points should prove most useful in the event of an amendment and simplification of the City Charter.

For example—in Minneapolis, Street Repairs and Grading are paid for partly out of the Permanent Improvement Fund and partly out of each of 13 Ward Funds. Street Cleaning and Snow and Ice Removal are also paid for out of each of the 13 Ward Funds, while each of these Funds is available for the purchase of equipment, buildings, etc., for the use only, however, of such ward as pays for it. The Funds of one ward cannot under the law be used for the purposes of another, nor is property and equipment purchased from the Funds of one ward available for the use of another ward.

All the Funds referred to are raised by special Tax Levy at different rates for different districts or purposes and must, by law, maintain their distinction.

The Charter urgently calls for amendment in the direction of consolidation of these numerous minor Funds.

Further, when amendments of a City Charter are under examination it will often be found advantageous to consider also whether the scheme of City Administration cannot be simplified so that distinct functions of Government may be performed by distinct Departments or at least that one Department shall not perform duties which are usually accepted as belonging to another. For example—the bulk of the expense on “Public Highways and Sewers” in Minneapolis is controlled by the Engineer’s Department (which corresponds to the Board of Public Works of other Cities), but an item of \$37,330.91 for Refuse Collection and Disposal was expended under the authority of the Health Department and paid for out of the Appropriation of that Department.

Without here entering into a discussion as to whether the collection and disposal of Refuse should be looked after by the Department of Public Highways and Sewers, or by that of protection of Life, Health and Property, this lesson may be indicated, viz.—that on the occasion of a Charter revision the light thrown by scientifically drawn Accounts on the Law on the one hand, and the form of City Administration on the other, forms a valuable guide in Reform.

In conclusion it is urged that Cities, when considering changes in their Accounting Systems or amendments of their Charters, should carefully study the Census Bureau forms and booklet, with a view to taking their share in introducing a Uniform System of presenting Municipal Reports.

Great benefit would be derived from the general adoption of a scheme which permitted each City's experience to be compared with that of other Cities. Such comparisons, if intelligently made and used by energetic reformers, would throw considerable light on such questions as to whether a City was being administered honestly and economically or dishonestly and extravagantly, and a comparison of the net existing Assets would frequently explain large variations in the rate of Tax Levy between Cities whose geographical and physical conditions were not dissimilar.

For the use of the Administrative Officers in the management of Cities' affairs such comparisons should be as valuable as the comparisons of the accounts of one Railroad with those of another are found to be by Railroad Managers.

From the point of view of a single City, a System framed to meet the local legal and administrative requirements and Reports properly drawn up therefrom would probably furnish the executive officers of the City all the comparative statistics necessary for the economical administration of their own City, and accounts

could be furnished the Tax Payers in such form as would enable them to compare the efficiency of one administration with that of another, but they would afford no means of judging of the economy or efficiency with which the City's business is transacted as compared with other Municipal Corporations, which is the object sought by Uniform Municipal Accounts.
